EXHIBIT E

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SONUS NETWORKS, INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM 10-K/A

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2003

Commission File Number 000-30229

SONUS NETWORKS, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**04-3387074** (I.R.S. employer identification no.)

250 Apollo Drive, Chelmsford, Massachusetts 01824
(Address of principal executive offices, including zip code)

(978) 614-8100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common stock, $0.001 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy statement or information proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $869,240,000 based on the closing price for the Common Stock on the NASDAQ National Market on June 30, 2003. As of January 31, 2004, there were 245,730,772 shares of $0.001 par value per share, common stock, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10–K/A to our Annual Report on Form 10–K for the year ended December 31, 2003, filed with the Securities and Exchange Commission (SEC) on March 15, 2004, is being filed for the purpose of including Items 6, 7, 8 (including our restated consolidated balance sheet, statement of operations, statement of stockholders' equity, statement of cash flows and related disclosures for the year ended December 31, 2002, and our restated consolidated statement of operations, statement of stockholders' equity, statement of cash flows and related disclosures for the year ended December 31, 2001), 9A, 10, 11, 12, 13 and 14 and the principal executive officer and co–principal financial officer certifications pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, and complete certifications by the principal executive officer and co–principal financial officers pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.

This Amendment No. 1 on Form 10–K/A does not reflect events occurring after the filing of the original Annual Report on Form 10–K on March 15, 2004, or modify or update the disclosure presented in the original Annual Report on Form 10–K, except to reflect the revisions as described above.

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This Amendment No. 1 on Form 10-K/A, as well as all other reports filed with or furnished to the SEC, are available free of charge through our Internet site (*http://www.sonusnet.com*) as soon as practicable after we electronically file such material with, or furnish it to, the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (*http://www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Restatement of Consolidated Financial Statements

As previously reported in our Current Report on Form 8-K filed with the SEC on January 21, 2004, we postponed the release of our financial results for the quarter and year ended December 31, 2003 pending the completion of the audit of our 2003 financial statements. On February 11, 2004, in connection with this year-end audit, we announced that we and our independent auditors had identified certain issues, practices and actions of certain employees relating to both the timing of revenue recognized from certain customer transactions and to certain other financial statement accounts, which might affect our 2003 financial statements and possibly financial statements for prior periods. Additionally, we announced that in response to the issues identified we were performing a detailed review of the revenue timing issues and of certain other financial statement accounts and that the audit committee of our board of directors was conducting an independent investigation with the assistance of independent legal and accounting advisors.

During the course of our review and the audit committee's investigation, we determined that the accounting with respect to certain prior period transactions required adjustment. As a result, we have restated our consolidated financial statements for the years ended December 31, 2002 and 2001 and the nine months ended September 30, 2003. The restated financial statements include a number of adjustments, the largest of which relate to revenue, deferred revenue, inventory reserves, purchase accounting, impairments, accrued expenses and stock-based compensation. Adjustments to revenue result primarily in revenue being deferred and recognized in subsequent periods. Adjustments to inventory and accrued expenses are primarily to increase or decrease reserve levels previously reported. Adjustments to purchase accounting, impairment, and stock-based compensation relate primarily to the timing of expense recognition.

In connection with our restatement, we and Ernst & Young LLP, our independent auditors, identified and reported to our audit committee significant internal control matters that collectively constitute "material weaknesses." Please see "Item 9A. Controls and Procedures" below for a description of these matters, and of certain of the measures that we have implemented during 2004 to date, as well as additional steps we plan to take to strengthen our controls.

We anticipate amending our previously filed quarterly reports on Form 10-Q for each of the first three quarters of 2003 for the purpose of restating our consolidated financial statements for the first three quarters of 2003 and 2002. The restated consolidated financial statements in these amended quarterly reports on Form 10-Q will include significant adjustments. See Note 18 of our consolidated financial statements. We do not anticipate amending our previously filed annual reports on Form 10-K or our quarterly reports on Form 10-Q for any periods prior to 2003. The consolidated financial statements and related consolidated financial information contained in previously filed reports, including for the years ended December 31, 2002 and 2001 and for the quarterly reports during 2002 and the first three quarters of 2003 should no longer be relied upon.

The net effects of all of the restatement adjustments on the statements of operations, and on all the balance sheet accounts, as of the dates and for the periods indicated in the following table, are in thousands, except per share data. The amounts as of and for the years ended December 31, 2002 and

2001 are derived from our audited financial statements, and the amounts as of and for the nine months ended September 30, 2003 are unaudited.

	As of or for the nine months ended ended Sept. 30, 2003	As of or for the year ended Dec. 31, 2002	As of or for the year ended Dec. 31, 2001
Consolidated Statement of Operations Data:			
Increase (decrease) in revenue	$ (19,193)	$ 31,359	$ (44,399)
(Increase) decrease in loss before income taxes	(15,557)	(5,285)	9,813
(Increase) decrease in net loss	(15,655)	(5,371)	9,813
(Increase) decrease in net loss per share	$ (0.07)	$ (0.03)	$ 0.06
Consolidated Balance Sheet Data:			
Increase (decrease) in cash and cash equivalents	$ 8,078	$ 6,971	$ (54)
Increase (decrease) in accounts receivable	2,732	1,666	1,241
Increase (decrease) in inventory	4,089	(327)	11,437
Increase (decrease) in other current assets	1,174	(290)	3,356
Increase (decrease) in goodwill and purchased intangible assets, net	2,643	3,636	15,453
Increase (decrease) in all other assets	379	328	(111)
Increase (decrease) in accounts payable	(728)	(517)	3,641
Increase (decrease) in accrued expenses	(15,453)	(16,890)	(9,225)
Increase (decrease) in accrued restructuring expenses	—	(812)	(17,344)
Deferred Revenue:			
Increase (decrease) in current portion of deferred revenue	38,783	22,493	43,110
Increase (decrease) in long-term deferred revenue	12,344	8,024	3,942
Total increase (decrease) in deferred revenue	$ 51,127	$ 30,517	$ 47,052
Increase (decrease) in current portion of long-term liabilities	$ —	$ —	$ (483)
Increase (decrease) in stockholders' equity	(15,851)	(314)	7,681

Revenue Adjustments

Deferral of product revenue

We have deferred revenues of $36.7 million previously reported in 2001 from a particular customer transaction. The amount of $27.5 million was subsequently recognized in the second quarter of 2002,

while the remainder was allocated to maintenance revenue and recognized over the period the services are provided. This transaction involved a complex multiple element arrangement that requires significant analysis with respect to the facts surrounding the transaction and technical accounting analysis to determine when revenue should be recognized. We previously recognized revenue in 2001 under this contractual arrangement upon delivery and acceptance of certain product and software releases. As a result of a comprehensive review and analysis of this arrangement, and based on the application of complex revenue recognition guidance, we have now determined that there was insufficient support to establish vendor specific objective evidence of fair value (VSOE) with respect to certain undelivered software releases and we have determined the existence of certain previously unidentified specified software releases. As a result, we have deferred product revenues associated with products and software releases shipped to this customer in 2001 until the second quarter of 2002, when all software releases under the arrangement were delivered.

In the fourth quarter of 2002, we amended our arrangement with this customer to include, among other items, certain additional future software releases. We previously recognized revenue from this arrangement in the fourth quarter of 2002 and in each of the first three quarters of 2003 upon delivery of the products and software releases. Upon review and analysis of the arrangement, we have determined that, based on a technical analysis of software revenue recognition rules, that VSOE was not established for certain undelivered software releases. As a result, we have deferred revenues of $16.2 million associated with products and software releases shipped to this customer during the fourth quarter of 2002 and the first three quarters of 2003. We recognized $10.9 million of those revenues in the fourth quarter of 2003 when the final software release specified in the amendment was delivered to the customer, and the remaining amount was deferred and allocated to maintenance services and estimated discounts on future purchases.

Maintenance revenue

A number of our customer transactions involve multiple elements, including the delivery of product and maintenance services as part of a bundled offering. Statement of Position (SOP) 97–2, *Software Revenue Recognition*, requires maintenance revenue to be recognized over the period services are provided. Based on our review and analysis, we identified certain circumstances in which we offered maintenance services at no additional charge or at discounted rates to certain customers but did not separate the fair value for the maintenance from product revenue. This resulted in revenue associated with the value of the undelivered maintenance services not being recognized over the service period. In the restated financial statements, we have recognized maintenance revenue ratably over the period in which the maintenance services were provided based on the deferral of the applicable VSOE of maintenance services. In such cases, we have reclassified maintenance services from product revenue to service revenue for the applicable periods presented. Based on our review and analysis, we also identified certain circumstances in which insufficient value was allocated to maintenance. In such cases, we have reclassified additional amounts from product revenue to service revenue for the applicable periods presented. In connection with the recognition of the deferred product revenue described above in the second quarter of 2002 and the fourth quarter of 2003, a significant portion of the product revenue was allocated to the value of undelivered maintenance services and deferred over the five–year period in which the maintenance services are provided.

Delivery

We identified transactions where we delivered some, but not all, of the product required under an arrangement. Previously, we deferred a portion of the revenue for these undelivered products based on the pricing in the arrangement, and recognized the remaining revenue on the delivered products. On a restated basis, we have deferred all revenue until all elements of the transaction were delivered because

we were not able to establish VSOE for the undelivered product or, in some instances, because such undelivered product was essential to the functionality of the delivered product.

Customer acceptance

We identified certain circumstances where revenue was recognized in a period other than one in which acceptance was achieved or other contingencies were resolved. As restated, revenue from such arrangements is recorded in the period in which customer acceptance occurred or other contingencies were resolved.

Other

In addition to the above, we identified several errors affecting revenue. We identified one instance in which we provided equipment to satisfy a contractual requirement, for which we have reclassified $274,000 from cost of revenues to reduction of revenue in 2001. We identified another transaction in which a customer provided us with equipment valued at $511,000 as part of a contractual renegotiation. We previously did not record this component of the transaction and, on a restated basis, have increased our fixed assets and revenue by $386,000 in 2002 and by $125,000 in 2003.

Summary

The following table is a reconciliation of revenue as previously reported to amounts as restated for the periods indicated, in thousands:

	Nine months ended Sept. 30, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Revenues, as previously reported	$ 66,019	$ 62,558	$ 173,199
Revenue Restatement Adjustments:			
Deferral of product revenue	(15,452)	34,644	(35,389)
Maintenance revenue	(2,816)	(10,910)	(3,656)
Delivery	(332)	3,898	(3,920)
Customer acceptance	(754)	2,285	(2,275)
Other	161	1,442	841
Total Revenue Restatement Adjustments	(19,193)	31,359	(44,399)
Revenues, as restated	$ 46,826	$ 93,917	$ 128,800

Expense Adjustments

Accrued expenses

During our review and analysis, we identified several accrued expense accounts that required adjustment to be in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*. Accounting for accrued expenses requires estimates and judgments, which can be complex. We adjusted accrual balances as the result of: (1) using more appropriate business assumptions to estimate certain liabilities, such as warranty reserves and post–shipment obligations to customers; (2) in those instances lacking available foundation or support for recorded balances at the time the original accrual was established, using currently known information, including actual disbursements and contemporaneous documentation in order to record the appropriate balances, such as royalties and professional fees; and (3) appropriately classifying certain balance sheet items, such as customer deposits to deferred revenues.

The following table is a reconciliation of accrued expense adjustments by category as of the dates indicated, in thousands:

	Sept. 30, 2003	Dec. 31, 2002	Dec. 31, 2001
Accrued expense adjustments—increase/(decrease) for:			
Employee compensation and related costs	$ (991)	$ 208	$ 1,217
Professional fees	(1,080)	(1,239)	(1,544)
Royalties	1,163	1,492	(1,360)
Warranty reserve	(3,109)	(3,385)	(2,378)
Post–shipment obligations to customers	(2,527)	(2,527)	(2,800)
Customer deposits	(6,576)	(7,240)	—
Other	(2,333)	(4,199)	(2,360)
Total accrued expense adjustments	$ (15,453)	$ (16,890)	$ (9,225)

Restructuring expense and benefits

In connection with our review and analysis, we determined that a restructuring benefit of $16,557,000 for a lease renegotiation originally recorded in 2002 should have been recorded in 2001. In addition, we reduced 2001 restructuring expense and related accruals by $1,929,000 related to balances that lacked support and increased 2002 expenses by $1,306,000. The effect of these adjustments was to reduce restructuring expense from $25,807,000 to $7,321,000 in 2001, and to adjust the restructuring item from a benefit of $10,125,000 to an expense of $7,739,000 in 2002.

Valuation of Intangibles

During 2001, we acquired two companies, telecom technologies, inc. (TTI) and Linguateq, Inc. (Linguateq). We accounted for the TTI acquisition as a purchase in accordance with Accounting Principles Board (APB) No. 16, *Business Combinations,* and for Linguateq as a purchase in accordance with SFAS No. 141, *Business Combinations*. As part of our re–examination of these acquisitions, we hired an independent third–party appraiser. In connection with the TTI acquisition re–appraisal, we have re–examined the total consideration paid, net liabilities assumed, and certain assumptions and calculations supporting the original appraisal of the identified intangible assets acquired from TTI. These assumptions included the customer turnover rate, the gross and operating margin percentages and inconsistencies in the profit assumptions used to value in–process research and development (IPR&D) compared to other identified intangible assets. The results of these changes to the purchase price and related allocation for the TTI acquisition are as follows:

Purchase Price of TTI	As Reported	Adjustments	As Restated
		(in thousands)	
Fair market value of shares issued	$ 527,613	$ (612)	$ 527,001
Liabilities assumed	21,184	(1,375)	19,809
Acquisition expenses	5,833	(67)	5,766
Total	$ 554,630	$ (2,054)	$ 552,576

As a result of re–appraisal of assets acquired, the final purchase price has been allocated to the tangible and intangible assets acquired based upon their fair values as follows:

Purchase Price Allocation of TTI	As Reported	Adjustments	As Restated
		(in thousands)	
Tangible assets	$ 8,296	$ 1,096	$ 9,392
Intangible assets:			
Workforce	3,000	3,900	6,900
Developed technology	11,900	2,100	14,000
Customer relationships	17,400	6,800	24,200
In–process research and development	40,000	800	40,800
Deferred compensation related to unvested stock options	22,600	—	22,600
Goodwill	451,434	(16,750)	434,684
Total	$ 554,630	$ (2,054)	$ 552,576

In connection with the revised appraisals, we have determined that the useful life of the TTI customer relationships and goodwill should be five years, compared to three years as previously reported. The impact to amortization expense as a result of the change in estimated useful lives and valuation of intangibles was an increase of $993,000 and $2,715,000 for the nine months ended September 30, 2003 and for the year ended December 31, 2002 and a decrease of $37,208,000 for the year ended December 31, 2001.

Impairment

In 2001, in light of negative industry and economic conditions, a general decline in technology valuations, and our decision to discontinue the development and use of certain acquired technology, we performed an assessment of the carrying value of goodwill and purchased intangible assets from TTI recorded in connection with SFAS No. 121, *Accounting for the Impairment of Long–lived Assets and Assets to be Disposed of,* and originally recorded an impairment charge of $374,735,000. Due to the changes in the valuation of intangible assets and their useful lives described above and the use of more appropriate revenue projections supporting the impairment calculation performed under SFAS No. 121 in 2001, we performed a new impairment assessment with the assistance of a new third–party appraiser, which resulted in the following impairment charge (after the reallocation of goodwill to the purchased intangibles):

SFAS No. 121 Impairment of Assets Acquired from TTI
As Reported (in thousands)

	Impairment Charge for the year ended December 31, 2001	Remaining Value as of December 31, 2001
Customer relationships	$ 200,217	$ 2,308
Developed technology	138,715	—
Workforce	34,084	797
Fixed assets	1,719	—
Total	$ 374,735	$ 3,105

SFAS No. 121 Impairment of Assets Acquired from TTI
As Restated (in thousands)

	Impairment Charge for the year ended December 31, 2001	Remaining Value as of December 31, 2001
Customer relationships	$ 204,016	$ 16,350
Developed technology	126,821	—
Workforce	59,831	2,381
Fixed assets	1,719	—
Total	$ 392,387	$ 18,731

In 2002, we adopted SFAS No. 141, which resulted in a reclassification of all remaining workforce–related intangible assets into goodwill. As a result of the continuing and significant decline in the market for telecommunications equipment and pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long–lived Assets*, we performed an impairment analysis of certain technology acquired from Linguateq. In addition, we performed an impairment analysis on our remaining goodwill for both the TTI and Linguateq acquisitions pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*. The results of these analyses are summarized in the following table, in thousands:

	Year Ended December 31, 2002		
	Impairment charge, as reported	Adjustments	Impairment charge, as restated
TTI customer relationships	$ —	$ 7,669	$ 7,669
TTI goodwill	796	1,585	2,381
Linguateq developed technology and customer relationship	175	—	175
Linguateq goodwill	877	(152)	725
Total	$ 1,848	$ 9,102	$ 10,950

Stock–based Compensation

We identified items in the calculation of stock–based compensation and related items that required adjustments to the stockholders' equity section of our balance sheet, and our stock–based compensation expense. These items pertain to errors involving the amortization and recapture of deferred compensation, the 2002 exchange of outstanding employee stock options, and intrinsic value charges for restricted stock and stock options grants and modifications.

We previously adopted the accelerated method of amortizing all deferred compensation defined under Financial Accounting Standards Board (FASB) Financial Interpretation No. (FIN) 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. In the event of forfeiture of a stock–based award, FIN 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, requires that compensation expense be adjusted to recapture the compensation expense previously recorded related to unvested stock–based awards, in the period of forfeiture. We previously had not recorded recapture of any such excess compensation expense upon the forfeiture of a stock–based award upon employee termination. As a result, we have decreased stock–based compensation by $229,000 for the nine months ended September 30, 2003, $4,926,000 in 2002 and $3,179,000 in 2001, in these restated financial statements, which includes the recapture of excess compensation expense related to the items discussed in the following two paragraphs.

We also determined that option grants made to certain newly hired employees had intrinsic value on the start date of the new employee. Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* requires that such intrinsic value be recorded as deferred stock–based compensation and amortized over the vesting period. Previously, we had not recorded any deferred stock–based compensation expense for these grants, and we are now recording an adjustment of $1,215,000 to deferred compensation and additional paid–in–capital in 2001. As a result and under our policy of amortization under FIN 28, we have increased stock–based compensation expense by $74,000 for the nine months ended September 30, 2003, $380,000 in 2002 and $408,000 in 2001, in these restated financial statements.

We recorded employee deferred stock–based compensation prior to our initial public offering and in connection with our acquisition of TTI, and established a policy to amortize these amounts on an accelerated method under FIN 28. We determined as a result of our review and analysis that the deferred stock–based compensation related to one category of employees was incorrectly amortized using the straight–line method and have made adjustments to consistently apply the FIN 28 method. As a result, we increased stock–based compensation by $72,000 for the nine months ended September 30, 2003, decreased such compensation by $193,000 in 2002 and increased such compensation by $1,690,000 in 2001, in these restated financial statements.

In October 2002, we commenced an offer to exchange outstanding employee stock options for new stock options to be granted by us. We had previously recorded deferred stock–based compensation for options issued prior to our initial public offering, and in conjunction with the exchange offer reversed any remaining unamortized deferred compensation to capital in excess of par value. We have determined as a result of our review and analysis that, in accordance with FIN 44, we should have expensed any remaining deferred stock–based compensation associated with options exchanged under this offer. As a result, we have recognized additional stock–based compensation expense of $562,000 for 2002.

We have determined that we improperly calculated deferred stock–based compensation and the related amortization associated with the restricted stock issued under the TTI Retention Plan. As a result, we have recorded additional deferred stock–based compensation of $242,000 on our balance sheet to capital in excess of par value during the year ended December 31, 2001. We have also recorded an increase in 2002 of $1,353,000 and a decrease in 2001 of $739,000 to stock–based compensation expense to reflect the amortization of deferred stock–based compensation that should have been recorded.

We also determined that we improperly calculated stock–based compensation expense for any intrinsic value associated with the modification of certain stock options and restricted stock to accelerate the vesting of a portion or all of these awards in connection with certain employee terminations. These adjustments resulted in increases in stock–based compensation expense of $200,000 for the nine months ended September 30, 2003, $200,000 in 2002 and $452,000 in 2001.

The following table is a summary of stock–based compensation restatement adjustments by type for the periods indicated, in thousands:

	Nine months ended Sept. 30, 2003	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Stock–based Compensation Adjustments—increase/(decrease) for:			
Recapture of compensation expense in connection with employee terminations	$ (229)	$ (4,926)	$ (3,179)
Amortization related to the intrinsic value of options granted to new employees	74	380	408
Adjusted amortization under accelerated method prescribed by FIN 28	72	(193)	1,690
Compensation charge related to options cancelled under Exchange Program	—	562	—
Amortization related to restricted stock issued in connection with TTI Retention Plan	—	1,353	(739)
Charge for modification in connection with employee terminations	200	200	452
Total Stock–based Compensation Restatement Adjustments	$ 117	$ (2,624)	$ (1,368)

As described in Note 1 (m) to our consolidated financial statements, we calculated the fair value of our stock options and the options under our employee stock purchase plan for disclosure purposes as required under SFAS No. 123, *Accounting for Stock–Based Compensation.* These calculations depend, among other factors, on the characteristics of our 2000 Employee Stock Purchase Plan (ESPP) and options with intrinsic value at the grant date. Our calculation did not properly consider these two items.

We have also identified and recorded certain adjustments related to certain stock option activity that had not been previously accounted for or had been previously accounted for in an incorrect period. As a result, we have made adjustments to the summary of stock option activity in Note 14 to our consolidated financial statements.

Inventory Reserves

As of September 30, 2003, December 31, 2002 and December 31, 2001 our originally reported excess, obsolete and evaluation reserve balances were $17,904,000, $17,784,000 and $9,629,000, respectively. We have determined that our excess, obsolete and evaluation reserve balances were not consistently calculated and, as a result of our review of our reserves and consideration of contemporaneous facts and circumstances, we reduced our reserves and reduced cost of product revenues by $937,000 as of and for the nine months ended September 30, 2003, and we increased our reserves and charged cost of product revenues by $522,000 and $3,297,000 as of and for the years ended December 31, 2002 and 2001, respectively.

Other Balance Sheet Adjustments

We identified certain customer checks received by us prior to the end of fiscal year 2002 and the quarter ended September 30, 2003, which were deposited after the reporting period and not recorded in the period received. Accordingly, we have increased our cash and cash equivalents and deferred revenue balances by $8,078,000 and $6,971,000 as of September 30, 2003 and December 31, 2002.

We previously did not record deferred revenue for product shipments and related services for which customers had been invoiced but for which no revenue was recognized and for which payment had not been collected. In this restatement, customer billings for which we have a contractual right to invoice and collectibility is probable have been recorded as accounts receivable on the balance sheet, with a corresponding increase to deferred revenue. Accounts receivable and deferred revenue have increased by $2,123,000 and $90,000 at September 30, 2003 and December 31, 2002.

We previously reported customer deposits as accrued liabilities. In connection with our review and analysis, we have determined that we should report customer deposits as deferred revenue rather than accrued expenses. Accordingly, deferred revenue has increased and accrued liabilities have decreased by $6,576,000 and $7,240,000 as of September 30, 2003 and December 31, 2002.

Other Statement of Operations Adjustments

As described in Note 1 (q) to our consolidated financial statements, we calculated the weighted average common shares outstanding utilized in the determination of loss per share in accordance with the treasury stock method as required under SFAS No. 148, *Earnings Per Share.* Our calculation did not properly consider certain activity and, accordingly, we have modified the weighted average common shares outstanding for 2002 and 2001.

Summary of Restatement Items

The following condensed consolidated statements of operations for the nine months ended September 30, 2003 and the years ended December 31, 2002 and 2001, on a comparative basis, summarize the effects of the restatement adjustments on various line items of our statements of operations for the periods indicated. We anticipate amending our previously filed quarterly reports on Form 10–Q for each of the first three quarters of 2003 for the purpose of restating our consolidated financial statements for the first three quarters of 2003 and 2002. We anticipate that the restated consolidated financial statements in these amended quarterly reports on Form 10–Q will include significant adjustments. See Note 18 to our consolidated financial statements.

Condensed Statements of Operations
As Reported and As Restated
(In thousands, except per share data)

	Nine Months Ended September 30, 2003			Year Ended December 31, 2002		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Revenues	$ 66,019	$ (19,193)	$ 46,826	$ 62,558	$ 31,359	$ 93,917
Cost of revenues	25,270	(4,656)	20,614	40,302	11,274	51,576
Gross profit	40,749	(14,537)	26,212	22,256	20,085	42,341
Operating expenses	47,963	1,020	48,983	92,044	25,370	117,414
Loss from operations	(7,214)	(15,557)	(22,771)	(69,788)	(5,285)	(75,073)
Interest income, net	832	—	832	1,318	—	1,318
Loss before income taxes	(6,382)	(15,557)	(21,939)	(68,470)	(5,285)	(73,755)
Provision for income taxes	—	98	98	—	86	86
Net loss	$ (6,382)	$ (15,655)	$ (22,037)	$ (68,470)	$ (5,371)	$ (73,841)
Net loss per share	$ (0.03)	$ (0.07)	$ (0.10)	$ (0.36)	$ (0.03)	$ (0.39)

	Year Ended December 31, 2001		
	As Reported	Adjustments	As Restated
Revenues	$ 173,199	$ (44,399)	$ 128,800
Cost of revenues	75,698	(12,920)	62,778
Gross profit	97,501	(31,479)	66,022
Operating expenses	747,940	(41,350)	706,590
Loss from operations	(650,439)	9,871	(640,568)
Interest income, net	5,007	(58)	4,949
Net loss	$ (645,432)	$ 9,813	$ (635,619)
Net loss per share	$ (3.74)	$ 0.06	$ (3.68)

PART II

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data of Sonus should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes to those statements included elsewhere in this report.

See the "Restatement of Consolidated Financial Statements" introductory comment to this Amendment No. 1 to Annual Report on Form 10-K/A and Notes 2, 17 and 18 to our consolidated financial statements for more detailed information regarding the restatement of our consolidated financial statements for the fiscal years ended December 31, 2002 and December 31, 2001 and restated unaudited quarterly data for fiscal quarters during the year ended December 31, 2002 and for the first three fiscal quarters of the year ended December 31, 2003.

	Year ended December 31,				
	2003	2002	2001	2000	1999
	(in thousands, except per share data)				
		As Restated	As Restated		
Consolidated Statement of Operations Data:					
Revenues	$ 93,210	$ 93,917	$ 128,800	$ 51,770	$ —
Cost of revenues(1)	37,909	51,576	62,778	27,848	1,861
Gross profit (loss)	55,301	42,341	66,022	23,922	(1,861)
Operating expenses:					
Research and development(1)	32,190	44,591	63,896	26,430	10,780
Sales and marketing(1)	23,169	27,786	40,876	21,569	5,606
General and administrative(1)	10,475	5,248	12,827	5,477	1,723
Stock-based compensation	3,418	16,871	74,132	26,729	4,404
Amortization of goodwill and purchased intangible assets	2,408	4,229	70,551	—	—
Write-off of goodwill and purchased intangible assets	—	10,950	392,387	—	—
Restructuring charges, net	—	7,739	7,321	—	—
In-process research and development	—	—	44,600	—	—
Total operating expenses	71,660	117,414	706,590	80,205	22,513
Loss from operations	(16,359)	(75,073)	(640,568)	(56,283)	(24,374)
Interest income, net	1,525	1,318	4,949	6,245	487
Loss before income taxes	(14,834)	(73,755)	(635,619)	(50,038)	(23,887)
Provision for income taxes	302	86	—	—	—
Net loss	(15,136)	(73,841)	(635,619)	(50,038)	(23,887)
Beneficial conversion feature of Series C preferred stock	—	—	—	—	(2,500)
Net loss applicable to common stockholders	$ (15,136)	$ (73,841)	$ (635,619)	$ (50,038)	$ (26,387)
Net loss per share(2):					
Basic and diluted	$ (0.07)	$ (0.39)	$ (3.68)	$ (0.52)	$ (1.84)
Pro forma basic and diluted				(0.37)	(0.25)
Shares used in computing net loss per share(2):					
Basic and diluted	220,696	191,008	172,905	95,877	14,324
Pro forma basic and diluted				135,057	96,188

	December 31,				
	2003	2002	2001	2000	1999
	(in thousands)				
		As Restated	As Restated		
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 305,392	$ 118,138	$ 125,013	$ 142,065	$ 23,566
Working capital	260,962	60,946	81,895	135,597	19,604
Total assets	358,424	153,517	216,206	194,835	30,782
Long–term deferred revenue, less current portion	24,302	8,024	3,942	—	—
Long–term liabilities, less current portion	829	3,293	1,289	—	3,402
Convertible subordinated note	10,000	10,000	10,000	—	—
Redeemable convertible preferred stock	—	—	—	—	46,109
Total stockholders' equity (deficit)	234,435	56,421	110,566	150,706	(25,199)

(1)

Excludes non–cash, stock–based compensation expense as follows:

	Year ended December 31,				
	2003	2002	2001	2000	1999
	(in thousands)				
		As Restated	As Restated		
Cost of revenues	$ 45	$ 235	$ 1,304	$ 404	$ 92
Research and development	1,180	8,930	42,764	11,428	1,537
Sales and marketing	1,542	4,941	17,968	12,051	2,104
General and administrative	651	2,765	12,096	2,846	671
	$ 3,418	$ 16,871	$ 74,132	$ 26,729	$ 4,404

(2)

See Note 1(q) to our consolidated financial statements for an explanation of the method of calculation. Pro forma per share calculation reflects the conversion of all outstanding shares of redeemable convertible preferred stock into shares of common stock which occurred upon the closing of our IPO in May 2000, as if the conversion occurred at the date of original issuance.